

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Niles Housing Commission	County Berrien
Fiscal Year End 12/31/06	Opinion Date 9/10/07	Date Audit Report Submitted to State 9/17/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

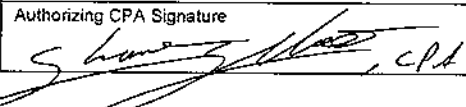
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-4300	
Street Address Po Box 828		City Iron Mountain	State MI
Authorizing CPA Signature 		Printed Name Shane M. Ellison, CPA	Zip 49801
		License Number 263063	

NILES HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2006

NILES HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Niles Housing Commission
Niles, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Niles Housing Commission as of and for the year ended December 31, 2006 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Niles Housing Commission as of December 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2007 on our consideration of the Niles Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Niles Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 10, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Niles Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2006. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$2,334,873 for the year ended December 31, 2006 compared to \$2,479,458 for the year ended December 31, 2005.
- The Commission's operating revenues totaled \$852,633 for the year ended December 31, 2006 and \$783,711 for the year ended December 31, 2005, while operating expenses totaled \$1,088,550 for the year ended December 31, 2006 and \$1,017,768 for the year ended December 31, 2005.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets for the year ended December 31, 2006 decreased \$(144,585) from the year ended December 31, 2005.

Table 1

NET ASSETS

	December 31,	
	2006	2005
Assets		
Current assets	\$ 247,687	\$ 282,497
Capital assets (net)	<u>2,192,715</u>	<u>2,323,111</u>
Total assets	<u>2,440,402</u>	<u>2,605,608</u>
Liabilities		
Current liabilities	91,353	115,680
Noncurrent liabilities	<u>14,176</u>	<u>10,470</u>
Total liabilities	<u>105,529</u>	<u>126,150</u>
Net Assets		
Invested in capital assets, net of related debt	2,192,715	2,323,111
Unrestricted	<u>142,158</u>	<u>156,347</u>
Net Assets	<u>\$2,334,873</u>	<u>\$2,479,458</u>

Net assets of the Commission stood at \$2,334,873 for the year ended December 31, 2006 compared to \$2,479,458 for the year ended December 31, 2005. Unrestricted net business assets were \$142,158 for the year ended December 31, 2006 compared to \$156,347 for the year ended December 31, 2005. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The decrease in current assets was largely due to a \$5,754 increase in cash, a \$5,708 increase in accounts receivable, and a \$44,177 decrease in investments. The decrease in current liabilities was largely due to a \$17,301 decrease in accounts payable-other government.

Table 2

CHANGE IN NET ASSETS

	Year Ended December 31,	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 402,521	\$ 426,853
Program grants and subsidies	492,825	644,222
General revenues:		
Other revenues	38,263	11,413
Unrestricted investment earnings	<u>10,356</u>	<u>12,492</u>
Total revenues	943,965	1,094,980
Program Expenses:		
Operating expenses	<u>1,088,550</u>	<u>1,017,768</u>
Change in net assets	(144,585)	77,212
Net assets - beginning of period	<u>2,479,458</u>	<u>2,402,246</u>
Net assets - end of period	<u>\$2,334,873</u>	<u>\$ 2,479,458</u>

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$943,965 for the year ended December 31, 2006 compared to \$1,094,980 for the year ended December 31, 2005. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The increase in operating expenses was largely due to a \$38,354 increase in administrative expenses and a \$12,301 increase in general expenses.

CAPTIAL ASSETS

Capital Assets

The Commission had \$6,322,166 invested in a variety of capital assets including land, equipment and buildings for the year ended December 31, 2006 compared to \$6,238,175 for the year ended December 31, 2005.

Table 3

CAPITAL ASSETS Business - Type Activity

	December 31,	
	2006	2005
Land and improvements	\$ 227,377	\$ 212,091
Building and improvements	5,585,798	5,364,730
Equipment	508,991	453,328
Construction in progress	-	208,026
Total	6,322,166	6,238,175
Less accumulated depreciation	(4,129,451)	(3,915,064)
NET CAPITAL ASSETS	<u>\$2,192,715</u>	<u>\$2,323,111</u>

The Commission invested \$83,991 in capital assets during the year ended December 31, 2006.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the calendar year 2007. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2007 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, David Martin, at 251 Cass Street, Niles, Michigan 49120, or call 269-683-2783.

NILES HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

December 31, 2006

CURRENT ASSETS:	
Cash and equivalents	\$ 10,558
Accounts receivable	6,781
Investments	216,915
Prepaid expenses	<u>13,433</u>
TOTAL CURRENT ASSETS	<u>247,687</u>
NONCURRENT ASSETS:	
Capital assets	6,322,166
Less accumulated depreciation	<u>(4,129,451)</u>
NET CAPITAL ASSETS	<u>2,192,715</u>
TOTAL ASSETS	<u>2,440,402</u>
CURRENT LIABILITIES:	
Accounts payable	28,790
Accrued liabilities	<u>62,563</u>
TOTAL CURRENT LIABILITIES	<u>91,353</u>
NONCURRENT LIABILITIES	<u>14,176</u>
TOTAL LIABILITIES	<u>105,529</u>
NET ASSETS:	
Investment in capital assets, net of related debt	2,192,715
Unrestricted net assets	<u>142,158</u>
NET ASSETS	<u>\$ 2,334,873</u>

The accompanying notes to financial statements are an integral part of this statement.

NILES HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Business-Type Activities
FUNCTIONS/PROGRAMS				
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 1,088,550	\$ 402,521	\$ 411,849	\$ 80,976
				(193,204)
General revenues:				
Other revenues				38,263
Unrestricted investment earnings				10,356
Total general revenues				48,619
Change in net assets				(144,585)
NET ASSETS, beginning of year				2,479,458
NET ASSETS, end of year				\$ 2,334,873

The accompanying notes to the financial statements are an integral part of this statement.

NILES HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended December 31, 2006

OPERATING REVENUES:

Tenant revenue	\$ 402,521
Program grants-subsidies	411,849
Other revenues	<u>38,263</u>

TOTAL OPERATING REVENUES	<u>852,633</u>
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OPERATING EXPENSES:

Administration	141,384
Tenant services	93,972
Utilities	116,502
Maintenance	356,260
Protective services	68,499
General	86,989
Extraordinary maintenance	10,557
Depreciation	<u>214,387</u>

TOTAL OPERATING EXPENSES	<u>1,088,550</u>
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OPERATING (LOSS)	<u>(235,917)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Capital grants	80,976
Interest income	<u>10,356</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES)	<u>91,332</u>
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CHANGE IN NET ASSETS	(144,585)
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NET ASSETS, BEGINNING OF YEAR	<u>2,479,458</u>
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NET ASSETS, END OF YEAR	<u>\$ 2,334,873</u>
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The accompanying notes to financial statements are an integral part of this statement.

NILES HOUSING COMMISSION

STATEMENT OF CASH FLOWS
Proprietary Fund

For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 409,087
Cash received from grants and subsidies	412,145
Cash payments to suppliers for goods and services	(457,469)
Cash payments for wages and related benefits	(395,222)
Cash payments for payment in lieu of taxes	(48,414)
Other receipts	<u>38,263</u>

NET CASH (USED BY) OPERATING ACTIVITIES (41,610)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	80,976
Acquisition of capital assets	<u>(83,991)</u>

NET CASH (USED) BY CAPITAL AND
RELATED FINANCING ACTIVITIES (3,015)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from investments	41,177
Investment income	<u>9,202</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES 50,379

NET INCREASE IN CASH AND EQUIVALENTS 5,754

CASH AND EQUIVALENTS, BEGINNING OF YEAR 4,804

CASH AND EQUIVALENTS, END OF YEAR \$ 10,558

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (235,917)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	214,387
Changes in assets and liabilities:	
Decrease (Increase) in receivables	6,862
Decrease (Increase) in prepaid expenses	(6,321)
Increase (Decrease) in accounts payable	(3,004)
Increase (Decrease) in accrued liabilities	<u>(17,617)</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (41,610)

The accompanying notes to financial statements are an integral part of this statement.



NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Niles Housing Commission (Commission) was formed by the City of Niles, Michigan under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City Manager.

The Commission manages 180 units of low rent public housing units, of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement #14, *The Financial Reporting Entity* and as amended by GASB Statement #39.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Niles Housing Commission, but the Niles Housing Commission is a component unit of the City of Niles, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.



NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 500
Checking accounts	<u>10,058</u>
 TOTAL	 <u>\$ 10,558</u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require, and the Commission does not have a policy for deposit custodial credit risk. As of December 31, 2006, the Commission's cash and equivalents were not exposed to credit risk due to them being fully insured.

Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>
		<u>Less Than 1 Year</u>
Certificates of Deposit	<u>\$216,915</u>	<u>\$216,915</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's investments may not be returned. As of December 31, 2006, the Commission's investments were not exposed to credit risk, due to them being fully insured.



NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

Concentration of Credit Risk. The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

Fifth-Third Bank, Niles, MI	\$ 20,262
Huntington Bank, Niles, MI	23,424
Chemical Bank, Niles, MI	78,828
First Source Bank, Niles, MI	<u>94,401</u>
Total	<u>\$216,915</u>

NOTE C - CAPITAL ASSETS

A summary of capital assets for the year ended December 31, 2006 is as follows:

	Balance 1-1-06	Additions	Deletions	Balance 12-31-06
Land and improvements	\$ 212,091	\$ 15,286	\$ -	\$ 227,377
Building and improvements	5,364,730	221,068	-	5,585,798
Equipment	453,328	55,663	-	508,991
Construction in progress	<u>208,026</u>	<u>80,976</u>	<u>(289,002)</u>	<u>-</u>
	6,238,175	<u>\$ 372,993</u>	<u>\$ (289,002)</u>	6,322,166
Accumulated depreciation	<u>(3,915,064)</u>	<u>\$ (214,387)</u>	<u>\$ -</u>	<u>(4,129,451)</u>
Net capital assets	<u>\$2,323,111</u>			<u>\$2,192,715</u>

Depreciation expense for the year was \$214,387.

NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended December 31, 2006 totaled \$943,965 of which \$492,825 or 52.2% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G- PENSION PLAN

Plan Description & Funding Policy

The Commission participates in the City of Niles pension plan. The City has two contributory, single-employer defined benefit plans covering substantially all of its employees: Plan A and Plan B. Membership in Plan A is open to all full-time employees of the City (other than policeman, fireman, those employees earning less than an average of \$500 per year, the medical director and independent contractors) including full-time elected officials. Employees who retire at or after age 63 with 10 years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 1.9% of average monthly compensation for each year of credited service. Employees are allowed to purchase up to 5 years of military time.



NILES HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(Continued)

NOTE G – PENSION PLAN (Continued)

Average monthly compensation is equal to 1/36th of the earning of the employee during the best 3 consecutive years of the employee's final 10 years of employment with the City. Benefits fully vest upon reaching 10 years of credited service. Employees may retire early on or after age 55 with 10 years of credited service and receive reduced retirement benefits. The Plan also provides death and disability benefits. Covered employees under Plan A are required to contribute 5.92% of their annual compensation to the Plan.

Annual Pension Cost

The City contributes to the Plans a percent of payroll calculated and recommended each year by the Plans' actuary. The Plans' contribution requirements for the plan year ended December 31, 2005 were \$601,040 (\$328,727 for Plan A and \$272,313 for Plan B) which consisted of \$211,152 from the City and \$389,888 from employees; these contributions represented approximately 2.5% and 6.3% of covered payroll, respectively.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 56,709	100%	\$ -
2004	53,873	100%	-
2005	66,950	99%	665

Schedule of Funding Progress

Plan A

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability(AAL) Entry Age (b)</u>	<u>Over- funded (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (ab)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)c)</u>
1/1/2004	15,045,577	14,761,710	(283,867)	102%	4,050,559	-7.01%
1/1/2005	15,770,486	15,501,303	(269,183)	102%	4,463,365	-6.03%
1/1/2006	16,441,525	15,880,718	(560,807)	104%	4,209,900	-13.32%

**SUPPLEMENTAL
INFORMATION**

NILES HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 10,558	\$ -	\$ 10,558
100	Total cash	10,558	-	10,558
Accounts and notes receivables:				
122	Accounts receivable - HUD other projects	4	-	4
126	Accounts receivable- tenants	3,572	-	3,572
126.1	Allowance for doubtful accounts - tenants	(151)	-	(151)
129	Accrued interest receivable	3,356	-	3,356
120	Total receivables, net of allowances for doubtful accounts	6,781	-	6,781
Other current assets:				
131	Investments	216,915	-	216,915
142	Prepaid expenses	13,433	-	13,433
150	TOTAL CURRENT ASSETS	247,687	-	247,687
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	212,091	15,285	227,376
162	Buildings	5,127,535	208,968	5,336,503
163	Furniture, equipment & machinery - dwellings	210,040	4,659	214,699
164	Furniture, equipment & machinery - administration	246,303	47,990	294,293
165	Leasehold improvements	237,195	12,100	249,295
166	Accumulated depreciation	(4,100,974)	(28,477)	(4,129,451)
160	Total fixed assets, net of accumulated depreciation	1,932,190	260,525	2,192,715
180	TOTAL NONCURRENT ASSETS	1,932,190	260,525	2,192,715
190	TOTAL ASSETS	\$ 2,179,877	\$ 260,525	\$ 2,440,402

See accompanying notes to financial statements.

NILES HOUSING COMMISSION**FINANCIAL DATA SCHEDULE****Proprietary Fund**

December 31, 2006

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 28,790	\$ -	\$ 28,790
321	Accrued wages/payroll taxes payable	6,763	-	6,763
322	Accrued compensated absences - current portion	6,337	-	6,337
333	Accounts payable - other government	20,071	-	20,071
341	Tenant security deposits	25,618	-	25,618
342	Deferred revenues	3,774	-	3,774
310	TOTAL CURRENT LIABILITIES	91,353	-	91,353
354	Accrued compensated absences - noncurrent	14,176	-	14,176
350	TOTAL NONCURRENT LIABILITIES	14,176	-	14,176
300	TOTAL LIABILITIES	105,529	-	105,529
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	1,932,190	260,525	2,192,715
512.1	Unrestricted net assets	142,158	-	142,158
513	TOTAL NET ASSETS	2,074,348	260,525	2,334,873
600	TOTAL LIABILITIES AND NET ASSETS	\$ 2,179,877	\$ 260,525	\$ 2,440,402

See accompanying notes to financial statements.



NILES HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2006

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 399,203	\$ -	\$ 399,203
704	Tenant revenue - other	3,318	-	3,318
705	Total tenant revenue	402,521	-	402,521
706	HUD PHA grants	288,497	123,352	411,849
706.1	Capital grants	-	80,976	80,976
711	Investment income - unrestricted	10,356	-	10,356
715	Other revenue	38,263	-	38,263
700	TOTAL REVENUE	739,637	204,328	943,965
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	52,924	4,396	57,320
912	Auditing fees	-	3,600	3,600
914	Compensated absences	4,326	-	4,326
915	Employee benefit contributions- administrative	4,374	336	4,710
916	Other operating- administrative	61,469	9,959	71,428
	Total Administrative	123,093	18,291	141,384
Tenant services:				
921	Tenant services - salaries	53,219	4,445	57,664
923	Employee benefit contributions - tenant services	30,287	-	30,287
924	Tenant services - other	5,689	332	6,021
	Total Tenant Services	89,195	4,777	93,972
Utilities:				
931	Water	28,032	-	28,032
932	Electricity	38,610	-	38,610
933	Gas	49,860	-	49,860
	Total Utilities	116,502	-	116,502

See accompanying notes to financial statements.



NILES HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2006

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
Maintenance:				
941	Ordinary maintenance and operations - labor	164,244	13,109	177,353
942	Ordinary maintenance and operations - materials & other	47,803	4,594	52,397
943	Ordinary maintenance and operations - contract costs	54,249	16,957	71,206
945	Employee benefit contributions- ordinary maintenance	54,280	1,024	55,304
	Total Maintenance	320,576	35,684	356,260
Protective services:				
951	Protective services - labor	15,317	1,244	16,561
952	Protective services - other contract costs	50,057	-	50,057
953	Protective services - other	163	-	163
955	Employee benefit contributions - protective services	1,623	95	1,718
	Total Protective Services	67,160	1,339	68,499
General expenses:				
961	Insurance premiums	43,324	-	43,324
962	Other general expenses	10,438	-	10,438
963	Payments in lieu of taxes	22,647	-	22,647
964	Bad debts - tenant rents	10,580	-	10,580
	Total General Expenses	86,989	-	86,989
969	TOTAL OPERATING EXPENSES	803,515	60,091	863,606
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(63,878)	144,237	80,359
971	Extraordinary maintenance	10,557	-	10,557
974	Depreciation expense	185,910	28,477	214,387
900	TOTAL EXPENSES	999,982	88,568	1,088,550
Other financing sources (uses)				
1001	Operating transfers in	63,261	-	63,261
1002	Operating transfers out	-	(63,261)	(63,261)
1010	Total other financing sources (uses)	63,261	(63,261)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (197,084)	\$ 52,499	\$ (144,585)

See accompanying notes to financial statements.

NILES HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2006

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
MEMO account information				
1103	Beginning equity	\$ 2,073,407	\$ 415,203	\$ 2,488,610
1104	Prior Period Adjustments, Equity Transfers	\$ 198,025	\$ (207,177)	\$ (9,152)
1120	Unit months available	2,160	-	2,160
1121	Number of unit months leased	1,897	-	1,897



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Commissioners
Niles Housing Commission
Niles, Michigan

We have audited the financial statements of Niles Housing Commission as of and for the year ended December 31, 2006, and have issued our report thereon dated July 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Niles Housing Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Niles Housing Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Niles Housing Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Niles Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to Management of the Niles Housing Commission in a separate letter dated September 10, 2007.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson Tackman & Co. PLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 10, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

September 10, 2007

Board of Commissioners
Niles Housing Commission
Niles, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Niles Housing Commission for the year ended December 31, 2006, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 10, 2007, on the financial statements of the Niles Housing Commission.

1. During the review of cash and investments, it was noted that the Commission did not have depository agreements in place with one of the banks it does business with.

Recommendation

The Commission should have policies and procedures in place so as to require each bank it does business with to sign a depository agreement with the Commission. The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000.

As of June 28, 2007 the Commission obtained a depository agreement with the bank that they were missing one for.

Niles Housing Commission
September 10, 2007
Page 2

2. During the review of disbursements it was noted that some invoices from vendors were not cancelled.


Recommendation

The Commission should have policies and procedures in place that requires it to effectively cancel its invoices once they are paid. This could be done by either writing "Paid" or stamping "Paid" on each invoice along with the check number and date.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



Shane M. Ellison, CPA
Principal